

Message Text

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ACTION EB-08

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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 0497

UNCLAS PANAMA 0591

FOR: EB/IFD/ODF: JOHN BLANEY

EO 11652: N/A

TAGS: EFIN, EAID, OREP

SUBJECT: SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT
ASSISTANCE

REF: STATE 9837

1. SUBJECT PAPER IS A CONSTRUCTIVE THINK-PIECE WHICH
SOUNDLY ANALYZES THE PROBLEMS AND NEEDS OF MOST LDC'S. IT
SEEKS CONSCIENTIOUSLY TO INCREASE THE SYSTEMATIC FLOW OF
FUNDS FROM DC'S TO LDC'S. IT FOCUSES SQUARELY ON THE OVER-
WHELMING IMPORTANCE OF GENERATING PRODUCTIVE INVESTMENT IN
LDC'S AND OF STIMULATING ECONOMIC ACTIVITY WHICH BOTH EARNS
FOREIGN EXCHANGE AND CREATES JOBS. IT PRESENTS A POSITIVE
APPROACH TO THE CONTRIBUTIONS OF MNC'S TO LDC DEVELOPMENT,
BUT THEN SHIFTS ITS ARGUMENT FOR INCENTIVES NEEDED TO
INCREASE AND DIVERSITY THOSE CONTRIBUTIONS TO METHODS FOR
TAXING MNC PROFITS TO INCREASE PUBLIC SECTOR FLOWS OF FUNDS
FOR IMPLICITLY PUBLIC SECTOR INVESTMENTS.

2. THE PROPOSAL ESSENTIALLY IS TO TAX PROFITS OF FOREIGN
OPERATIONS OF MULTINATIONAL CORPORATIONS AND TO EARMARK
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THESE TAXES FOR INCREASING U.S. CONTRIBUTIONS TO DEVELOP-
ING COUNTRIES FROM ITS CURRENT .035 PERCENT OF OUR GNP TO
THE UN TARGET OF 0.07 PERCENT. THE SUBJECT PAPER PROPOSES
THAT THESE TAXES BE APPORTIONED IN EQUAL SHARES: (1) ONE-
THIRD OF REVENUES AS SPECIAL FUNDS TO THE WORLD BANK AND TO
VARIOUS REGIONAL BANKS; (2) ONE-THIRD TO THE UNDP AND PVO'S;
AND (3) ONE-THIRD TO BE DEPOSITED IN AN EDUCATIONAL TRUST

FUND FOR THE DEVELOPING COUNTRIES.

3. THE PROPOSAL ITSELF PRESENTS SOME SERIOUS CONCEPTUAL PROBLEMS. EARMARKING TAX FUNDS A GENERAL RULE IS A QUESTIONABLE PRACTICE; ONCE THE TAX IS ESTABLISHED, THE MONEYS CONTINUE TO BE ALLOCATED EVEN THOUGH PRIORITIES MAY CHANGE OR MONEYS OF THE SAME MAGNITUDE ARE NO LONGER NEEDED. HOWEVER, EVEN ACCEPTING THE CONCEPT OF EARMARKED TAXES FOR THIS SPECIAL PURPOSE, EMBASSY QUESTIONS THE ADVISABILITY OF OUT PASSING ON FUNDS OF THIS MAGNITUDE TO MULTILATERAL ENTITIES OR LDC'S WITHOUT FURTHER GUIDELINES BY THE USG ON THE USES OF THE FUNDS.

4. EMBASSY SUGGESTS THAT THE MOST EFFECTIVE WAY TO INCREASE FOREIGN EXCHANGE AND JOB-GENERATING INVESTMENTS IN LDC'S IS NOT NECESSARILY INCREASED FLOWS OF FUNDS TO THE PUBLIC SECTOR. CONSISTENT WITH THE INITIAL ANALYSIS OF SUBJECT PAPER, IT MAY BE SUGGESTED TO THE SENATOR THAT HE RE-THINK HIS PROPOSED ALLOCATION OF RESOURCES. FOR EXAMPLE, COMPANIES MIGHT BE GIVEN A TAX CREDIT UP TO 50 PERCENT OF MONEYS DUE, ON A DOLLAR-FOR-DOLLAR BASIS, FOR INVESTMENT IN JOINT ENTERPRISES IN AN LDC FOR ACTIVITIES DEEMED PRIORITY BY THE LDC. ANOTHER POSSIBILITY MIGHT BE TO ALLOCATE THE RESOURCES LARGELY THROUGH U.S. AND MULTILATERAL DEVELOPMENT BANKING INSTITUTIONS EARMARKED FOR PRODUCTIVE JOB-GENERATING INVESTMENTS. OUR OBJECTIVE SHOULD BE TO ALLOCATE DIRECTLY TOWARD THE SOLUTION OF THE PROBLEMS IDENTIFIED IN THE EARLY PART OF THE PAPER.

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5. EMBASSY IS FURTHER CONCERNED ABOUT SENATOR'S CONCLUSION THAT UNDP AND PVO'S ARE EFFICIENT IMPLEMENTORS OF DEVELOPMENT PROGRAMS. UNDP IS CURRENTLY OPERATING UNEVEN PROJECTS, MANY OF WHICH ARE FAR FROM THE CUTTING EDGE OF PRIORITY DEVELOPMENT PROBLEMS; INDEED, PHILOSOPHICAL AND POLITICAL CROSS-CURRENTS OFTEN GIVE THE IMPRESSION IN THE FIELD THAT UNDP IS MORE LIKE AN EMPLOYMENT SERVICE THAN A LONG-TERM SUSTAINED DEVELOPMENT-SUPPORTING EFFORT. MOST PVO'S LACK THE TRAINED PEOPLE AND INSTITUTIONAL FRAMEWORK FOR EFFICIENTLY UTILIZING LARGE AMOUNTS OF RESOURCES. WHATEVER CHANNELS ARE USED FOR INCREASING THE FLOW OF RESOURCES TO LDC'S, THEY SHOULD BE THOSE OBJECTIVELY JUDGED TO BE THE MOST EFFECTIVE IN PROMOTING DEVELOPMENT -- AND, MOST SPECIFICALLY IN GENERATING FOR LDC'S NEW SOURCES OF REINVESTABLE INCOME AND JOBS.

6. EMBASSY SUGGESTS THAT SUBJECT PAPER INADEQUATELY ADDRESSES RELATIVE ADVANTAGES TO U.S. OF BILATERAL AND MULTI-LATERAL CHANNELS FOR PROVIDING DEVELOPMENT ASSIST-

ANCE.THE PROPOSED ALLOCATION OF RESOURCES NEEDS CAREFUL
POLICY ANALYSIS TO DETERMINE WHICH BEST CAN STRENGTHEN
U.S. ASSOCIATION WITH LDC'S IN THEIR DEVELOPMENT EFFORTS
AND PROMOTE DEVELOPMENT PROGRAMS CONSISTENT WITH DEMOCRATIC
VALUES.

7. THE EDUCATIONAL TRUST FUND CONCEPT IS GOOD IN PRINCI-
PLE, BUT IT IS NOT SPELLED OUT. IS IT TO FINANCE PUBLIC
EDUCATION IN LDC'S, HIGHER EDUCATION ABROAD, WORKER SKILL
TRAINING, HUMAN RESOURCE DEVELOPMENT (I.E., NUTRITION,
HEALTH, SOCIAL SERVICES) OR EVEN THE INSTITUTIONAL INFRA-
STRUCTURE, INCLUDING SALARIES TO REVERSE THE BRAIN DRAIN?
IS IT TO BE LIMITED TO PUBLIC PROGRAMS OR WOULD IT EXTEND
ALSO TO PRIVATE EDUCATIONAL SYSTEMS? A SUBSTITUTE FOR
DOMESTIC LDC ACTIONS TO MOBILIZE THEIR OWN RESOURCES?
INAPPROPRIATELY FRAMED, IT COULD WELL CREATE MORE PROBLEMS
THAN IT MIGHT SOLVE; BUT, A MATCHING GRANT-IN-AID SUPPLE-
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MENT TO OUR CURRENT BILATERAL AID, FULBRIGHT AND OTHER
PROGRAMS MIGHT BE WORTH TRYING.

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